

Message Text

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ACTION EUR-12

INFO OCT-01 EA-09 NEA-10 IO-13 ISO-00 AID-05 CIAE-00
EB-08 FRB-01 INR-07 NSAE-00 USIA-15 XMB-04
OPIC-06 SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15
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FM AMEMBASSY LONDON
TO SECSTATE WASHDC 2366
TREASURY DEPT WASHDC
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY DUBLIN
AMEMBASSY NEW DELHI
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY TOKYO
AMCONSUL BELFAST
AMCONSUL EDINBURGH
USMISSION EC BRUSSELS
USMISSION OECD PARIS
USDEL MTN GENEVA
USDOC WASHDC

UNCLAS LONDON 05612

DEPARTMENT PASS FEDERAL RESERVE BOARD

TREASURY FOR DONALD E. SYVRUD, OASIA

E.O. 11652: N/A
TAGS: ECON, UK
SUBJECT: DETAILS OF FOREIGN CURRENCY BONDS MADE PUBLIC

1. CHANCELLOR OF THE EXCHEQUER HEALEY, IN A WRITTEN
ANSWER IN COMMONS APRIL 4, STATED THAT OFFICIAL HOLDERS
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OF STERLING HAD BEEN ADVISED OF THE DETAILED TERMS OF OF-
FER OF THE FOREIGN CURRENCY BONDS THROUGH WHICH THE GOV-
ERNMENT HOPES TO FUND PART OF THE OFFICIALLY HELD STER-
LING BALANCES.

2. THE BONDS, TO BE ISSUED APRIL 14, WILL BE DENOMINATED
IN U.S. DOLLARS, DEUTSCHEMARKS, SWISS FRANCS, AND JAPAN-

ESE YEN. THE CONVERSION OF LIABILITIES IN STERLING TO THOSE IN FOREIGN CURRENCY WILL BE DONE AT A RATE CALCULATED AS EITHER THE AVERAGE OF THE NOON LONDON SPOT RATE OVER THE TEN BUSINESS DAYS PRECEDING APRIL 4, OR THE SPOT RATE ON APRIL 1. WHICHEVER IS MOST FAVORABLE TO THE SUBSCRIBER.

3. DOLLAR BONDS WILL BE ISSUED AT PAR WITH 5, 7 AND 10 YEAR MATURITIES. THESE WILL BEAR INTEREST OF 8-3/8 PERCENT, 8-5/8 PERCENT. AND 8-7/8 PERCENT FOR THE RESPECTIVE MATURITIES.

4. THE BONDS IN OTHER CURRENCIES WILL ALSO BE ISSUED AT PAR BUT ONLY WITH A 7-YEAR MATURITY. THE INTEREST WILL BE 8 PERCENT ON THE YEN DENOMINATED BONDS, 7-1/2 PERCENT ON THE MARK BONDS, AND 5-7/8 PERCENT ON THE SWISS FRANC BONDS.

5. THE BONDS ARE TO BE NEGOTIABLE. THE CHANCELLOR STATED THAT A NUMBER OF LEADING FINANCIAL INSTITUTIONS HAD AGREED TO ASSIST THE HOLDERS OF THE FOREIGN CURRENCY BONDS IN ANY EVENTUAL SALES THAT THEY MIGHT WISH TO MAKE IN THE FUTURE. THE CHANCELLOR ALSO NOTED THAT ALTHOUGH ONLY OFFICIAL HOLDERS OF STERLING COULD SUBSCRIBE FOR THE BONDS, THERE IS NO BAR TO THEIR EVENTUAL DISPOSAL TO PRIVATE HOLDERS, ALTHOUGH HMG HAS NO OBLIGATION TO REDEEM OR BUY ANY BONDS BEFORE MATURITY.

6. THE TERMS OF THE BONDS ARE QUITE FAVORABLE, THE FINANCE

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CIAL PRESS ESTIMATING THAT THE INTEREST IS BETWEEN 1/2 AND 1 PERCENT ABOVE COMPARABLE QUALITY PAPER ON THE EURO-BOND MARKET. CHANCELLOR HEALEY NOTED THIS AND EXPLAINED "IN ORDER TO ENCOURAGE OFFICIAL HOLDERS TO ACCEPT THE CHANGE IN THE CURRENCY COMPOSITION AND MATURITY STRUCTURE OF THEIR RESERVES THAT HOLDING THESE BONDS WILL INVOLVE. THE TERMS WHILE BASED ON SUCH MARKET ANALOGIES AS THERE ARE, ALSO INCORPORATE DELIBERATE ADJUSTMENTS TO REFLECT THAT BONDS ARE NOT ON ALL FOURS WITH NORMAL ISSUES OR PLACEMENTS." AS A ROUGH GUIDE TO THE MATURITY STRUCTURE OF OFFICIAL STERLING BALANCES, ON DECEMBER 31, 1976 1.103 BILLION POUNDS OF THESE BALANCES WERE HELD IN GOVERNMENT BONDS WHILE 1.536 BILLION POUNDS WERE HELD IN BANKING AND MONEY MARKET ASSETS. MOREOVER, HIGH LEVELS OF STERLING INTEREST RATES, AND OF CAPITAL GAINS ON HOLDING STERLING FINANCIAL INSTRUMENTS, HAVE COMBINED WITH A STABLE POUND DURING THE PAST FEW MONTHS TO REDUCE OR REVERSE INCENTIVES TO LEAVE STERLING.

7. THE FINANCIAL PRESS FEELS THAT THE TERMS OF THE OFFERING MAY ALSO BE SET HIGH TO CONVINCE THE PARTICIPANTS IN THE BASLE SAFETY NET ARRANGEMENT THAT THE UK IS MAKING, AS AGREED, A SERIOUS EFFORT ON ITS OWN TO SWITCH STERLING LIABILITIES INTO FOREIGN CURRENCY LIABILITIES AND REDUCE THE RESERVE CURRENCY ROLE OF STERLING.

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Message Attributes

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Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
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